

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-05 H-01 INR-07
L-03 NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15
USIA-06 ACDA-07 IO-13 AID-05 COME-00 EB-08 FRB-03
TRSE-00 XMB-02 OPIC-03 LAB-04 SIL-01 OMB-01 STR-04
ERDA-05 FEAE-00 MCT-01 OES-07 NRC-05 DHA-05 /133 W
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TO SECSTATE WASHDC 1226

INFO AMEMBASSY BERLIN

USMISSION USBERLIN

AMEMBASSY BRUSSELS

USMISSION NATO

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY ROME

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AMCONSUL DUSSELDORF

AMCONSUL FRANKFURT

AMCONSUL HAMBURG

AMCONSUL MUNICH

AMCONSUL STUTTGART

C O N F I D E N T I A L SECTION 01 OF 02 BONN 14652

USEEC ALSO FOR EMBASSY

E.O. 11652: GDS

TAGS: PINT, EGEN, EFIN, ENRG, GW

SUBJECT: FRG - THE OUTLOOK AT THE START OF THE
BUNDESTAG SESSION

SUMMARY: CHANCELLOR SCHMIDT NOW FACES THE MOST DIFFI-
CULT POLITICAL AUTUMN IN HIS CHANCELLORSHIP TO DATE.

THE RULING SOCIAL-LIBERAL COALITION HAS A NARROW

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PARLIAMENTARY MAJORITY AND CONFRONTS A NUMBER OF ISSUES
WHICH HAVE GROWN IN COMPLEXITY AND INTENSITY OVER THE
SUMMER. THE MAJOR PROBLEMS INCLUDE (1) THE STATE OF
THE ECONOMY (GROWING UNEMPLOYMENT, A DEPRESSING GROWTH
PROJECTION); (2) NUCLEAR POWER AS AN ALTERNATIVE TO
FOSSIL FUELS; AND (3) TERRORISM.

THERE ARE SHARP DIFFERENCES ON SOME OF THESE ISSUES WITHIN THE GOVERNMENT'S TWO COALITION PARTIES, THE SOCIAL DEMOCRATIC PARTY (SPD) AND THE FREE DEMOCRATIC PARTY (FDP). SCHMIDT AND HIS MINISTERS MUST WALK A TIGHTROPE BETWEEN WHAT THEY WANT AS POLICY AND WHAT THE DYNAMICS IN THESE TWO PARTIES PERMIT. BOTH GOVERNMENT PARTIES WANT TO BUILD A RECORD WHICH WILL ENABLE THEIR COALITION AND THE PARTIES INDIVIDUALLY TO SURVIVE THE STATE ELECTIONS NEXT YEAR.

THE CDU/CSU OPPOSITION HAS TOLD US THAT IT PLANS TO ATTACK SCHMIDT'S GOVERNMENT SHARPLY ON THE ISSUES AND ON THE AMORPHOUS QUESTION OF OVERALL LEADERSHIP. IN THE PROCESS, THE OPPOSITION WILL SEEK TO HIGHLIGHT DIFFERENCES OF VIEWS WITHIN THE COALITION PARTIES, ACCENTING EXTREME OR "LEFTIST" VIEWS TO DISCREDIT THE GOVERNMENT. THE OPPOSITION WILL ALSO CRITICIZE THE FRG'S HANDLING OF SUCH EAST-WEST ISSUES AS INNER-GERMAN RELATIONS AND CSCE. THE OPPOSITION'S OBJECTIVE IS TO TOPPLE THE SCHMIDT GOVERNMENT, POSSIBLY IN 1978, AND BARRING THIS TO GAIN GROUND IN ANTICIPATION OF WINNING THE NEXT FEDERAL ELECTIONS IN 1980.

THIS SCENARIO BEGINS TO UNFOLD THIS WEEK, WHEN THE BUNDESTAG RESUMES WORK. AN EARLY HIGH POINT WILL BE SCHMIDT'S OVERALL POLICY STATEMENT SEPT. 15 IN WHICH HE

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WILL TRY TO SEIZE THE PARLIAMENTARY INITIATIVE FOR THE SPD/FDP COALITION. THE SCENARIO WILL BE A LONG ONE, HOWEVER, AND THE STAKES ARE HIGH. END SUMMARY.

ECONOMY

1. WHEN THE BUNDESTAG ENDED ITS SUMMER RECESS ON SEPT. 5, IT FACED A NUMBER OF DIFFICULT, FAMILIAR ISSUES. THE MOST TROUBLESOME ONE IS THE NAGGING PROBLEM OF THE DOMESTIC ECONOMY. BY FRG STANDARDS, UNEMPLOYMENT REMAINS UNCOMFORTABLY HIGH. RECOVERY IS SLUGGISH DESPITE THE DM 16-BILLION PUBLIC INVESTMENTS PROGRAM WHICH COMMENCED EARLIER THIS YEAR, AND FORECASTS FOR THE SHORT TERM ARE DISCOURAGING. MOST POLITICIANS AGREE THAT SOMETHING FURTHER NEEDS TO BE DONE, BUT PRESCRIPTIONS VARY WIDELY. AS A MATTER OF PRACTICAL POLITICS, IN VIEW OF THE FOUR MAJOR STATE (LAND) ELECTIONS SCHEDULED FOR 1978, CHANCELLOR SCHMIDT MUST TAKE SOME STEPS SOON TO RELIEVE THIS ECONOMIC MALAISE OR AT LEAST TO SHOW THAT HE IS ACTING WITH VIGOR. HIS EFFORTS TO BLAME THE PROBLEM ON THE CONTINUING SLUMP IN THE WORLD ECONOMY HAVE LESS AND LESS POLITICAL VALUE AT HOME.

2. HELMUT KOHL, LEADER OF THE CHRISTIAN DEMOCRATIC UNION/CHRISTIAN SOCIAL UNION (CDU/CSU) OPPOSITION, HAS PUBLICLY CALLED FOR A QUICK-FIX SOLUTION, WHEREBY THE FRG WOULD CUT CORPORATE AND INDIVIDUAL INCOME TAXES BY 10 PERCENT FOR ONE YEAR BEGINNING OCTOBER 1 UNDER THE STABILITY AND GROWTH LAW, WHICH GIVES THE GOVERNMENT FLEXIBILITY TO REDUCE TAXES ON A TEMPORARY BASIS WITH

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MINIMAL LEGISLATIVE PROCEDURES. THIS SOLUTION HAS THE ADVANTAGE OF SPEED AND IS PROBABLY PALATABLE TO SCHMIDT PERSONALLY. APPLICATION OF THE STABILITY AND GROWTH LAW, HOWEVER, WOULD REQUIRE UNIFORM TAX CUTS, AND HERE

SCHMIDT WOULD FACE STRONG OPPOSITION FROM IMPORTANT SEGMENTS OF THE SPD AND POSSIBLY FDP WHICH OPPOSE TAX BREAKS FOR INDUSTRY AND HIGH-INCOME GROUPS.

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3. IT REMAINS TO BE SEEN WHAT ECONOMIC REMEDIES THE CHANCELLOR WILL PROPOSE. INCREASED GOVERNMENT EXPENDITURES, VARIOUS SELECTIVE TAX EXEMPTIONS AND DEDUCTIONS, AND ACCELERATED DEPRECIATION ALLOWANCES ARE UNDER GOVERNMENTAL REVIEW. WHATEVER SCHMIDT PROPOSES, HOWEVER, WILL PROBABLY REQUIRE FULL LEGISLATIVE APPROVAL. THIS MEANS THE GOVERNMENT WILL NEED TO SEEK SOME ACCOMMODATION WITH THE CDU/CSU IN ORDER TO SECURE PASSAGE IN THE UPPER HOUSE (THE BUNDES RAT), WHERE THE OPPOSITION HAS A MAJORITY.

ENERGY.

4. THE SPD AND FDP CONTINUE TO STRUGGLE INTERNALLY OVER THE MERITS AND COSTS OF GREATER FRG DEPENDENCE ON NUCLEAR POWER. IMPORTANT ELEMENTS IN BOTH PARTIES OPPOSE THE SCHMIDT GOVERNMENT'S POLICY OF CONSTRUCTING ADDITIONAL NUCLEAR PLANTS. SCHMIDT'S MINISTER FOR RESEARCH AND TECHNOLOGY (MATTHOFER) RECENTLY SAID A 5-YEAR MORATORIUM ON NUCLEAR PLANT CONSTRUCTION MAY BE NECESSARY BECAUSE OF SENTIMENT WITHIN THE COALITION PARTIES. BY SUPPORTING NUCLEAR POWER PLANT CONSTRUCTION, THE OPPOSITION HOPES TO CAPITALIZE ON FEARS OF UNEMPLOYMENT AND PERHAPS TO GAIN SOME SUPPORT FROM GERMANY'S LABOR MOVEMENT. IN THE PROCESS, THE OPPOSITION WILL ALSO STRESS CONTRADICTIONS IN THE GOVERNMENT COALITION.

TERRORISM.

5. THE ASSASSINATIONS OF FEDERAL PROSECUTOR BUBACK AND BANKER PONTO, AND THE BLOODY KIDNAPPING OF EMPLOYERS' ASSOCIATION PRESIDENT SCHLEYER, HAVE KEPT AN INTENSE PUBLIC FOCUS ON THE MENACE OF TERRORISM AND WHAT THE FRG AND STATE GOVERNMENTS ARE DOING ABOUT IT. THE CABINET

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HAS APPROVED INTERIOR MINISTER MAIHOFFER'S REQUEST FOR A MAJOR EXPANSION IN FEDERAL SECURITY FORCES. BUNDESTAG DEBATE OF THIS ITEM, ON SEPTEMBER 15 AND IN SUBSEQUENT CONSIDERATION OF THE FORMAL BUDGET, WILL ENABLE THE CDU/CSU TO RENEW ITS OLD CHARGE THAT THE SCHMIDT GOVERN-

MENT IS UNEQUAL TO THE TASK OF COMBATTING DOMESTIC TERRORIST GROUPS. THE OPPOSITION WILL PROBABLY ALSO CALL FOR ENHANCED "LAW AND ORDER" MEASURES, SUCH AS MONITORING COMMUNICATIONS BETWEEN TERRORISTS AND THEIR ATTORNEYS.

DEFENSE POLICY.

6. THE BUNDESTAG DEFENSE COMMITTEE HOLDS CLOSED HEARINGS ON SEPT. 7 TO REVIEW MAJOR DEFENSE QUESTIONS, INCLUDING THE RECENT CONTROVERSY OVER PRM-10 AND THE NEUTRON BOMB. ON SEPTEMBER 8 THE BUNDESTAG WILL HOLD A PLENARY DEBATE ON FRG DEFENSE POLICY, BASED ON PARLIAMENTARY QUERIES FILED LAST SPRING BY BOTH THE SPD/FDP COALITION AND THE CDU/CSU OPPOSITION. THE SEPTEMBER 15 DEBATE WILL PROBABLY COVER SOME OF THIS SAME GROUND.

EAST-WEST ISSUES.

7. WHILE THE SCHMIDT GOVERNMENT FACES THE RESPONSIBILITY OF CONDUCTING INNER-GERMAN NEGOTIATIONS, THE OPPOSITION CAN BE EXPECTED TO CHIP AWAY AT THE FRG'S HANDLING OF THESE NEGOTIATIONS. (THE CDU/CSU HAS IN FACT ALREADY CALLED FOR A PAUSE IN NEGOTIATIONS PENDING CONCLUSION OF THE CSCE BELGRADE CONFERENCE.) THE OPPOSITION ALSO PLANS A SERIES OF "HEARINGS" IN THE FALL TO COMPILE DOCUMENTATION ON GDR VIOLATIONS OF HUMAN RIGHTS, USING THIS PROCESS AS A MEANS TO PRESS THE FRG INTO A HIGHER HUMAN RIGHTS PROFILE IN CSCE.

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